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Resumed eighteenth session

SUMMARY RECORD OF THE 4th MEETING

Held at the Vienna International Centre, Vienna,
on Tuesday, 18 November 1997, at 10 a.m.

President: Mr. POSTA (Hungary)

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The meeting was called to order at 10.30 a.m.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE (*continued*) (IDB.18/2 and Add.1):

- (a) **SCALE OF ASSESSMENTS** (*continued*) (IDB.18/13)
- (b) **INTERIM FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997** (*continued*) (IDB.18/4)
- (c) **PROGRAMME AND BUDGETS, 1998-1999** (*continued*) (IDB.18/15/5/Rev.1, IDB.18/15/6)
- (d) **FINANCIAL REGULATIONS AND FINANCIAL RULES** (*continued*) (IDB.18/8, IDB.18/12)
- (e) **WORKING CAPITAL FUND** (*continued*) (IDB.18/10)
- (f) **APPOINTMENT OF AN EXTERNAL AUDITOR** (*continued*) (IDB.18/2)
- (g) **FINANCIAL SITUATION OF UNIDO** (*continued*) (IDB.18/3, IDB.18/5, IDB.18/14, IDB.18/20, IDB.18/CRP.2, IDB.18/CRP.3, IDB.18/CRP.4)
- (h) **INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS** (*continued*) (IDB.18/9)

1. **Mr. JEDDA** (Tunisia), speaking on behalf of the African Group, said, with regard to the proposed budget, that the African Group, in close collaboration with the Group of 77 and China had, since the end of 1996, been engaged in extensive consultations with a view to preserving the Organization. The Group had at all times maintained its position in favour of a maximum budget reduction of 10 per cent. However, at the last session of the Programme and Budget Committee (PBC), the Group, having declared its support of the consensus, had stressed how concerned it was by the drastic reductions in the Organization's budget, and stated that it had gone along with the consensus, with the aim of safeguarding UNIDO (see document IDB.18/2/Add.1, annex I). In accepting the reductions, the Group had made concessions in order to continue work and as a demonstration of its capacity for dialogue and understanding. It was, however, insistent that there should be no further cuts in UNIDO's budget or further reductions in its activities.

2. In view of the Organization's alarming financial situation, the Group wished to reiterate its request to those States with contribution arrears to settle their debts and honour their financial obligations. Voluntary contributions to the Industrial Development Fund and other funds should also be encouraged in order to meet the increasing needs of the developing countries.

3. Finally, the Group recommended that the appointment of the President of the Federal Court of Audit of Germany as the External Auditor of UNIDO be extended for a further term, and proposed that the auditor's reports issued in the future be studied by an ad hoc committee in order to ensure the transparency required.

4. **Mr. CELSO de OURO PRETO** (Brazil), speaking on behalf of the Latin American and Caribbean Group (GRULAC), said that the agenda item under discussion was one of the most important for consideration at the current session. GRULAC wished to reiterate its firm wish that the Board adopt, for recommendation to the General Conference, the conclusions and recommendations of the PBC, in particular the proposed programme and budgets for the biennium 1998-1999, as agreed in its conclusion 97/10 (IDB.18/2/Add.1, para. 11).

5. As indicated by GRULAC in the explanation of its vote (IDB.18/2/Add.1, annex I) in connection with the adoption of that conclusion, the agreement reached did not meet the expectations of its members. Throughout the entire negotiation process, GRULAC had expressed its opposition to any reduction in the Organization's budget. However, in a spirit of compromise, it had supported the final outcome of the negotiations, on the understanding that no further budgetary cuts would be made. It regretted the PBC's decision to close down the UNIDO liaison office in Geneva, which could have contributed to the implementation of the Organization's mandate.

6. GRULAC was convinced that, in having finally agreed on the programme and budgets for the biennium 1998-1999, UNIDO was moving into a new phase of its life, which, it was hoped, would be characterized by a period of stability with a long-term vision. Following the efforts expended by Member States and the Secretariat in defining the Business Plan and adopting a budget, it was now necessary to ensure the effective fulfilment of UNIDO's mandates and the implementation of the related activities, projects and

programmes, within the framework of a stable environment. GRULAC was confident that all Member States would act in a constructive manner in that new phase and that the Secretariat would strictly comply with the mandates emanating from the Organization's governing bodies, in particular with regard to the strengthening of field representation.

7. Concerning the International Centre for Science and High Technology (IDB.18/16 and Add.1 and 2), GRULAC wished to appeal to the Government of Italy to continue providing its invaluable support and to reconsider its request for a change in the status of the Centre, which had been established within the legal framework of UNIDO.

8. GRULAC regarded the preparations for the seventh session of the General Conference as particularly important, and felt it would be useful for the Board to establish an informal mechanism which, on completion of the Board's current work, could initiate the relevant consultations.

9. **Mr. DE LEZICA** (Argentina) said that the extensive deliberations that had preceded the PBC's adoption of the proposed budget for the biennium 1998-1999, now before the Board, not only reflected the concern of Member States to ensure the viability of the Organization, but also promoted a foretaste of the difficulties that the new Director-General would have to face in its effective implementation, given the major adjustments which it had undergone. Member States involved in those deliberations had seen their expectations unfulfilled and had had to make regrettable concessions. One example was the closure of the Geneva office, to which the new Director-General had intended to assign a new role of coordination with major international organizations in that city, with whose Directors-General he had already agreed to work jointly with a view to reducing the operational costs of UNIDO's programmes and to providing services to those organizations in common areas; that could have led to increased resources for the Organization and avoided duplication.

10. It had nevertheless been possible to observe a willingness on the part of Member States to arrive at an outcome which, while not meeting the aspirations of the supporters of the different budget reduction scenarios, might at least provide the new Director-General with the essential tools to discharge his mandate.

11. His delegation believed that, if he was to transform UNIDO into the dynamic and modern Organization which the developing countries required, the Director-General should be given the necessary tools to enable him to make the best use of the limited resources available and should be allowed to administer the budget with a degree of

flexibility, in order to be able to assign resources as required by the circumstances and to make use for the benefit of the Organization of surplus funds from each accounting period and resources obtained externally from additional sources of funding, within the parameters laid down by the Financial Regulations.

12. His delegation was gratified by the commitment on the part of Member States to refrain from further budget adjustments in the future, given that the predictability of available resources would form the basis for an efficient administration. Argentina therefore wished to request that no measure should be taken to overcome the difficulties facing UNIDO in the current budgetary period that might affect the 1998-1999 budget, since that would in practice mean a further budget cut that would have an unpredictable impact on the Organization's activities. The attraction of short-term benefits entailed risks that UNIDO was not in a position to assume.

13. **Mr. BOERSNER** (Observer for Venezuela) said that, while all the difficulties which had recently given rise to a crisis and called in question UNIDO's very existence had not been overcome, decisive steps had been taken during the last few months in the process of introducing substantive changes in the functioning of the Organization, in terms of its priorities, structure, programmes and budget. The adoption of the Business Plan by the Board had been the starting point for that process and the main source of ideas for the discussions on all areas requiring reform. The challenge was now to implement its conclusions with a long-term vision and an appropriate balance between firmness and flexibility. For that purpose, permanent dialogue was to be encouraged in order to ensure UNIDO's adaptation to the dynamics of the global economic and political system, and the nature and scope of the services to be provided by the Organization in the future needed to be clearly defined.

14. In the Venezuelan delegation's view, UNIDO should not only provide technical assistance but also provide inputs for negotiations at other levels with a view to ensuring that the process of socio-economic globalization did not take place under unilateral pressure but reflected a growing consensus between developed countries, developing countries and countries with transition economies. Venezuela believed that UNIDO could be transformed into an international forum providing for equitable participation by countries of different categories, and the public and private sectors, in the promotion of sustainable industrial development.

15. Venezuela was of the opinion that the agreements reached by the PBC regarding the programme and budgets for the biennium 1998-1999 did not meet the aspirations of many Member States, particularly those of the developing countries, and were not in keeping with the

objectives outlined in the Business Plan. Despite that unsatisfactory outcome, his delegation had accepted the proposed budget reductions, chiefly through a desire to safeguard the existence of UNIDO, and had accordingly supported the conclusion adopted by the PBC at its resumed thirteenth session. It regretted that the PBC had not opted for the proposals aimed at restructuring the Organization in such a way that the financial resources saved in certain areas would be reassigned to others having greater priority. It therefore felt, as stated in paragraph (f) of PBC conclusion 97/10, that any further reductions in the 1998-1999 or future budgets would seriously impair UNIDO's capacity to fulfil its mandate.

16. UNIDO was on the threshold of a more promising phase. Advantage should be taken of the atmosphere of renewed confidence in order to redouble efforts towards solving other problems which had contributed to the state of uncertainty concerning the Organization's existence. His delegation therefore appreciated the steps taken by the Director-General, in conformity with decision IDB.17/Dec.3, to recover the amount owed by the United States of America. It had recently been announced that the Government of Venezuela would honour all its obligations towards UNIDO. Following the payment of \$669,536.91 made in January 1997, the balance of its arrears, i.e. \$2,267,886, would be settled prior to the next General Conference session. That constituted a major effort for his country, given the serious financial crisis through which it had recently passed. However, it wished to display its commitment to and confidence in the Organization; more than ever before, it was persuaded that UNIDO's existence was of vital importance to the attainment of sustainable industrial progress, particularly in the least developed countries.

17. Finally, the proposal made by the Government of Italy for a change in the status of the International Centre for Science and High Technology was a source of concern to his delegation. Venezuela felt that the advantages and disadvantages of such a change should be analysed in depth, since it was feared that UNIDO's activities in the field of investment promotion and related technologies, as outlined in the Business Plan, might be affected.

18. **Ms. OK** (Turkey) said that she regretted the occurrence of the events that had led to a situation where the Board was discussing serious cuts in UNIDO's budget and programmes. There was nevertheless some hope for a rebirth of the Organization with a reduced but concentrated programme, a better management and improved communications with Member States and with international finance institutions.

19. It was difficult to envisage how the Organization's programmes would look following the foreseen cut of over 20 per cent in its budget base, as negotiated by the

PBC. The new Director-General's vision would be crucial in determining the point from which UNIDO could move forward. Her delegation wished to be optimistic about the Organization's continuing role of serving the needs of the developing countries.

20. Turkey fully complied with its budget commitments and had been a provider rather than a recipient of aid within the Organization. It hoped that the new atmosphere that would be created, both inside and outside the Organization, by a new management would induce those Members which had not been willing to meet their obligations for different reasons to do so.

21. The Turkish delegation regarded the 20.12 per cent reduction from the budget base of \$156,360.7 (PBC conclusion 97/10, table 2) as the uppermost target to be implemented by the new Director-General in accordance with his innovative outlook for the Organization and his anticipated relations with the outside world. Regarding the implications of the proposed budget cuts on staffing levels, she wished to express her appreciation to the Chairman of the informal open-ended working group on personnel and financial aspects related to staff reductions for his efforts to formulate guidelines for recommendation. Turkey wished to insist on the continuation of some form of consultative group, with which the new Director-General could maintain contacts during the implementation of the staff reduction programme. It agreed that top priority should be given to voluntary separations, followed by new recruits, particularly staff engaged during the past four or five years. The last group of staff members to be considered for involuntary termination should be experts and qualified personnel who had served UNIDO for longer periods and had contributed to the Organization's success.

22. The options for the collection of unpaid assessed contributions from the United States of America, as set out in document IDB.18/18, were unacceptable to her delegation. Confrontational approaches would not solve the problem. Turkey would prefer the new Director-General and the President of the Board to continue their contacts with the relevant United States authorities, and with the authorities of other countries which also owed huge sums, to persuade them to comply with their obligations. No one debtor should be singled out but all payment defaulters should be dealt with equally, including those from the developing countries.

23. With regard to the proposal to change the status of the International Centre for Science and High Technology (ICS), her delegation felt that it was the prerogative of the Italian Government to decide whether to transfer the ICS project to UNESCO. However, that would not constitute a favourable development from the viewpoint of Turkey's project to establish a centre for

hydrogen energy technology under the framework of UNIDO.

24. **Ms. LAJOUS VARGAS** (Mexico) said that she wished to reiterate that the agreements reached by the PBC at its resumed thirteenth session (IDB.18/2/Add.1) were not entirely satisfactory to her delegation and did not meet its expectations. Nevertheless, the Mexican delegation, like those of the other developing countries, had in a spirit of compromise striven to arrive at an outcome acceptable to all Member States, provided that the viability of UNIDO was not jeopardized.

25. Mexico believed that the PBC's decision concerning the programme and budgets for the biennium 1998-1999 provided a necessary basis for continuing the substantive work of the Organization and for completing the reforms and restructuring initiated at the Yaoundé General Conference session. Her delegation was ready to agree that the Board should endorse the agreements reached by the PBC, on the same terms, and wished to call upon all Member States to do likewise.

26. Her delegation continued to be concerned by the financial and personnel implications of the further budget cuts that would come into effect in 1998, and believed that the costs arising from those cuts and from the consequent decrease in staffing levels should be borne by those States which had never argued for the cuts. Her delegation was nevertheless willing to discuss different options and hoped that a solution could be jointly found. That required all Member States to be up to date with their assessed contributions to the Organization. Mexico had paid its dues for 1997 and had even made some partial payments towards its 1998 contribution. The problem of financing the staff separation programme was not the result of non-payment of assessed contributions, but was the consequence of the budget cuts.

27. Finally, her delegation wished to express its concern regarding the proposal of the Italian Government to change the status of the International Centre for Science and High Technology, which had been established under the legal framework of UNIDO. Mexico, like other developing countries and countries with transition economies, had benefited from the Centre's activities and believed that its transfer to a sphere not concerned with the links between technology and industry would not only jeopardize the follow-up of projects in progress or in the pipeline but also be contrary to UNIDO's constitutional mandate and to the terms of the Business Plan. As had been pointed out by the Secretary-General of the United Nations (United Nations document A/51/950, para. 88), technology was one of the important areas that a revitalized UNIDO could handle. The Mexican delegation appreciated the cooperation provided by the Government of Italy in connection with the Centre and hoped it would

continue to provide it on the existing terms. It should be borne in mind that the Centre had become fully operational only last year and a certain interval was necessary for the rewards to be reaped.

28. **Mr. KOTOV** (Bulgaria) said that the Board, at its current session, must finalize its deliberations and make the best possible preparations for the forthcoming General Conference session. With regard to the programme and budgets for 1998-1999, his delegation believed that the proposed cut of 20.001 per cent in the regular budget as compared with the budget base for 1998-1999 would limit the Organization's potential generally and would narrow the scope of its activities. Any further budget reductions could seriously impair UNIDO's capacity to fulfil its main mandates. The proposed cut required a thorough examination of all aspects relating to staff reduction and funding modalities, as outlined in document IDB.18/15/5/Rev.1.

29. The programme and budget adjustments made in the biennium 1996-1997 had shown that such an exercise could be both complicated and painful. However, the Board's extensive discussions on the future role and functions of UNIDO had led to the conclusion that the only possible way of preserving the Organization and making it more flexible and effective in the present economic situation would be by downsizing it and focusing its activities on areas where it could better respond to the demands of the developing countries and economies in transition. His delegation believed that, within the available resources agreed upon for the biennium 1998-1999, further emphasis should be placed on refining the management and performance of the Organization, and making it financially sound, transparent, dynamic and practically oriented, with more simplified procedures enabling it to respond promptly to the requests of Member States, meet its priorities and fully implement the Business Plan.

30. The Organization's successful performance was closely related to the mobilization of funding through the Industrial Development Fund and other voluntary contributions. In the view of the Bulgarian delegation, UNIDO could and should play a more active role in expanding trilateral cooperation among recipient countries, donor States and specialized funding agencies, including efforts to mobilize additional extrabudgetary resources and to develop innovative modalities for mobilizing funds, as discussed in document IDB.18/9.

31. His delegation was also concerned about the critical status of the payment of assessed contributions and the cash flow balance in the regular budget. The depletion of the Working Capital Fund could place the Organization in an unprecedented situation of insolvency and undermine the reform process as a whole. Bulgaria had

met its financial obligations in full and on time, and wished to urge Member States in arrears to make every effort to honour their commitments. His delegation was in favour of the proposal to reactivate the open-ended discussion group on timely payment of assessed contributions (see document IDB.18/5).

32. Bulgaria was of the opinion that the staff separation programme stemming from the budget reductions should be financed mainly through income from outstanding contributions. However, in view of the prevailing situation regarding the cash flow balance, his delegation was prepared to examine further possibilities for resolving the problem, on the understanding that any solution would not give rise to an additional financial burden, particularly for Member States without the financial resources to meet new financial commitments.

33. **Mr. UMER** (Pakistan) endorsed the statement made by Brazil on behalf of GRULAC. The new draft budget was the result of long and difficult negotiations characterized by a remarkable degree of cooperation and compromise among all groups of countries. Despite the budget reductions, the developing countries could be satisfied that the core programmes had been retained, including the important areas of strengthening of industrial capacities, sustainable industrial development, technical cooperation and field representation. The total appropriations for those areas amounted to over \$75 million, or approximately 60 per cent of the total budget. If properly implemented, the activities under those major programmes would play a significant catalytic role in advancing industrial development and promoting the welfare of peoples. Disappointment at budget reductions could be counterbalanced by the realization of the Organization's continuing capability to assist in those key areas.

34. The new measures for the reform of field representation, if judiciously carried out, would transform the Organization's operational culture. Decentralization, downward empowerment, emphasis on service packages, increased use of local expertise, enhanced cooperation with investment promotion services, and greater coordination with other United Nations field offices would all strengthen the delivery arm of the Organization, producing clear and tangible benefits for recipient countries. The redeployment of personnel from Headquarters to the field was also consistent with the Secretary-General's new vision of a revitalized, target-oriented United Nations.

35. The developed countries had equally valid reasons to be satisfied with the proposed budget and its positive features. It had not been their intention, nor was it in their interests, to deprive UNIDO of its core functions in the globalized economic environment. Universal growth was

in everyone's interest, whereas compartmentalized areas of affluence were no longer sustainable. The proposed allocations also met all possible concerns about cost-effectiveness. Compared to the budget for 1996-1997, there had been a reduction of almost 35 per cent, including the reduced UNDP component; 125 posts were to be eliminated.

36. A streamlined UNIDO was poised to fulfil its mandate in an efficient and cost-effective manner. A turning point had been reached for the Organization, and the parameters of the debate should be changed to focus on how best to enable the new Director-General to implement the budget provided. The emphasis should once more be placed on fulfilling UNIDO's mandate to promote the industrial development of the developing countries through cooperation and partnership. The culture of reductions should end, and the Organization should be empowered to operate in a climate of confidence, stability and assurance. UNIDO's staff should be freed from the relentless pressures of the past several years in order to discharge their responsibilities without fear of the future. Those obliged to leave should be allowed to do so in dignity and with full rights. Agreement should quickly be reached on separation costs, making use of the precedents available in the United Nations and elsewhere.

37. In connection with the recovery of arrears, his delegation shared the general frustration at the continuing stalemate. However, while reviewing the various options elaborated by the Director-General, it should be recalled that the objective was to recover the funds, rather than to score political points over the defaulters. They should be careful not to completely close the door on cooperative action.

38. The budget should be approved without any further modifications. The proposals had been constructed with considerable care over several months and if any single element were altered, the entire structure could crumble. The new Director-General should be allowed to use any flexibility available within the budget.

39. The budget should be endorsed by consensus, avoiding the necessity for a vote. It would be distressing to witness any further division in the Board, and it would be most encouraging and appropriate if the sincerity of purpose of Member States could be reflected in a consensus recommendation to the General Conference.

40. **Ms. ALLEMAYEHU** (Observer for Ethiopia) said that she supported the statements made by the African Group, the Group of 77 and China. After strenuous discussion, the PBC had failed to reach a consensus on the budget problem, and her delegation shared the concern of developing countries that no further budget reductions

should be made in the next biennium. The current reductions were excessive, and might already hinder effective implementation of the programmes outlined in the Business Plan.

41. It was gratifying that the African region had been given priority in UNIDO's major programmes, as the African countries, and especially the LDCs, relied on the Organization's technical support to accelerate their industrial growth. Food security and sustainable development in the twenty-first century were also of immediate concern to many LDCs. Ethiopia therefore supported the continuation of UNIDO's programmes for the promotion of agro-industrial development and the strengthening of field offices and activities at the country and subregional levels in Africa.

42. With regard to the current financial situation, it was a double misfortune that the Organization, which had undergone intensive budget cuts, should face yet another financial crisis through the non-payment of assessed contributions. Only 62 countries had paid their dues in full as of 31 October 1997, and almost 60 per cent of Member States were in arrears. Two recent payments by the Government of Japan and payments by some Member States since September 1997 had slightly improved the situation. Ethiopia had paid its own contribution in full and was always committed to meeting its obligations. The Board would surely find a practical means of ensuring the payment of arrears. Unless UNIDO could be rescued from the current financial catastrophe, the vision of a new viable UNIDO would be blurred, and all discussions would remain futile. The conclusions and recommendations of the eighteenth session of the Board could help to rebuild UNIDO on a strong foundation.

43. **Mr. LI CHANGHE** (China) said that UNIDO's difficulties were primarily of a political nature, reflecting certain trends which had emerged after the end of the cold war. He nevertheless hoped that UNIDO would continue to play its important role in international economic cooperation and in assisting developing countries to strengthen their industrial capacities.

44. The current session of the Board was of crucial importance in view of the forthcoming General Conference; in particular a smooth adoption of the programme and budgets for 1998-1999 was essential. The current budget proposal had been reduced by over 30 per cent compared to the 1996-1997 level, which would inevitably have some negative impact on the implementation of the Business Plan. Although the budget reduction was excessive, his delegation had agreed to the plan, in view of the long and difficult negotiations involved, in which great flexibility had been displayed by all sides. The developing countries had already made a maximum compromise on the programme and budgets

question, and he hoped that other countries would attach proper importance to international development and cooperation, and give support by concrete action.

45. If the outcome of the reform was to reduce UNIDO activities to a minimum level, then the aim of the reform was very questionable. At the United Nations General Assembly, many States had expressed the view that development should be given high priority. The international community could surely reach a consensus on the question.

46. In future, UNIDO should be allowed a period of recuperation, without any more threats of budgetary reductions. It could not fulfil its role when constantly inhibited by financial crises. In the current month, it had even been uncertain whether staff salaries would be paid. Budget reductions over the next two years would result in the loss of 120 staff members, with separation costs of \$16 million. The \$2 million available from reserve funds still left a gap of \$14 million, and no solution had yet been found. The cash flow situation for the first half of 1998 was very uncertain. All Member States should pay their assessed contributions as early as possible, as the Organization could soon be in irreversible difficulties. Arrears in payments already amounted to \$100 million, including \$61.3 million from the United States, which was equivalent to almost the two-year budget for the whole Organization. Negotiations should be held with the United States Government in order to urge it to pay its arrears. The intersessional group should also continue its work to find ways of expediting payment.

47. Finally, an early and appropriate solution should be found for the important and delicate issue of staff separations, which involved the self-interest of the Secretariat's staff and also affected the functioning and capacity of the Organization. Decisions concerning the future of various departments should be made strictly in accordance with the priorities outlined in the Business Plan. Staff reductions should not affect the efficiency and expertise of the Organization, and separation costs should be minimized. The criteria for retaining staff members should include consideration of their qualifications, skills and competence, while also properly reflecting the principle of equitable geographical distribution.

48. **Mr. AMROHI** (India) said that his delegation had supported the revised programme and budgets for 1997-1998 at the resumed PBC session, although it was dissatisfied with the drastic reductions proposed. Every effort should be made to strengthen the Organization in view of the importance of its mandate for the developing countries. No further budget cuts should be made, and the Organization's resource base should be expanded.

49. The current financial crisis remained a matter of concern. All defaulting Member States should be called upon to fulfil their legal obligations without delay and in full.

50. He suggested that Member States might need more time to consider the transfer of the International Centre for Science and High Technology from UNIDO to UNESCO. The Centre was an important body under the UNIDO umbrella, currently carrying out projects in a number of countries, and involving experts from both developed and developing countries. The views of the beneficiary countries should also be taken into account before a final decision was reached. For example, how would current projects and those proposed for the next biennium be affected by the transfer of the Centre to UNESCO?

51. **Mr. AHMADI** (Islamic Republic of Iran) said that the task of the Board was to ensure that implementation of the programme and budgets for 1998-1999 complied with the Business Plan on the future role and functions of UNIDO. The cuts of over 20 per cent in the Organization's regular budget would impair its capacity to fulfil its mandate, but the developing countries had agreed to them and had made great concessions so that the Organization could be revitalized. Though the programme and budgets had been put to the vote in the PBC, he hoped that the Board would be able to reach a consensus. All Member States should show their support for UNIDO and their firm willingness to enhance international cooperation on industrial development. The gradual abolition of UNIDO, which might be the ultimate aim of a few countries, would cause a loss of some hundred thousand dollars in technical assistance to developing countries, but the developed countries would sustain an even greater loss politically and economically, particularly with regard to the credibility of their objectives in international cooperation. The downsized UNIDO should therefore not be considered as a privilege granted to the developing countries. Every effort should be made to ensure that the Organization was effective and also accommodated the demands of developing countries.

52. Although many other international organizations were also facing the problem of arrears in the payment of assessed contributions, UNIDO had been particularly affected by the non-payment of United States contributions amounting to some \$61 million. If only half of those arrears could be collected, the current financial crisis of the Organization would be relieved, and concrete solutions could be found to various questions, including staff separation costs. The open-ended discussion group on timely payment of assessed contributions should focus on finding constructive and realistic methods rather than discussing measures to force only the major contributors to fulfil their outstanding obligations.

53. **MR. SANUSI** (Nigeria) said that his delegation supported the statement by the African Group, and reiterated its support for the current reform. The Organization had gone through three difficult years of budget reductions and rationalization. In a spirit of cooperation, Nigeria had accepted the budget reduction of 20.001 per cent, while regretting that a vote had been necessary in the PBC. The budget should be adopted by the Conference without much difficulty and Member States should no longer subject UNIDO to such pressures. The success of the renewed Organization would depend on the support of Member States, and in particular on their honouring their financial obligations.

54. Although the reform activities had to some extent been very encouraging, some had had painful impacts. The team involved should nevertheless be commended. The next rationalization exercise should be carried out with all due care and compassion for both the Organization and the staff concerned.

55. With regard to the decentralization soon to be carried out, his country offered to host one of the new regional offices.

56. The financial base of the Organization would have to be reinforced. All arrears should be paid, and the inter-sessional open-ended discussion group on timely payment should be reconvened. He also endorsed the action plan suggested by the Director-General in document IDB.18/18, which should help the Organization to recover the money owed by a former major donor.

57. **Mr. DASQUE** (France) fully supported the request made by GRULAC concerning the liaison office in Geneva. The PBC resolution proposing its closure was regrettable, as the office had enabled UNIDO to maintain links with UNCTAD, WTO and other Geneva-based organizations. If the future Director-General wished to retain the Geneva office, without of course undermining the whole budget framework, his delegation would not object. The Director-General should take advantage of any possible flexibility in budget implementation, while of course respecting the prerogatives of the governing bodies.

58. **Mr. DE MARIA Y CAMPOS** (Director-General) welcomed the general consensus on the programme and budgets that appeared to be emerging, despite the dissatisfaction of Member States that had wished for lesser—or in some cases for greater—budget reductions. A consensus would provide a good basis for his successor's work.

59. Implementation of the staff separations would inevitably be a painful process and a fundamental

challenge for the Secretariat. Every effort would be made to carry out the reform with all due compassion.

60. The closure of the Geneva office would be unfortunate, as it had been an important point of contact with developing countries that had no permanent representation in Vienna, including many French-speaking LDCs. The office had also facilitated coordination with organizations such as UNCTAD and WTO, in order to avoid duplication of activities. The present situation had been reluctantly accepted, in order to avoid reopening the budget discussion. Perhaps his successor could ensure that some kind of representation would be maintained in Geneva, perhaps funded out of voluntary contributions. Any thoughts on that subject from Member States would be welcome.

61. On the question of arrears and payments, a pragmatic approach was certainly needed. That had always been his approach in attempting to ensure payments and recover arrears from the United States and other countries. His efforts had resulted in a considerable improvement in the financial situation, as borne out by the figures for September 1997, which showed receipts of \$14.6 million; with Venezuela's recent payment, receipts now stood at some \$17 million. In the short term, therefore, and according to informal indications, the most difficult problems had been overcome. He would continue his efforts to achieve a solution for the longer-term problem as long as he was in office. He urged Member States to review the possibility of paying their contributions as early as possible in January 1998, so that his successor could start out with a good financial basis and ensure the smoother running of the Organization in the future. To that end, it was important to find a Member State willing to chair the working group on the financial situation of UNIDO, bearing in mind that results could only be achieved by Member States themselves, and that a change of attitude by some States was essential. If the LDCs could bring their payments up to date, as some of them had recently done, countries in a healthier financial situation could do likewise.

62. Two different questions were therefore involved: the need, firstly, to establish incentives to make payments on time and penalties for failure to pay, and, secondly, the need to address the matter of arrears, particularly those of the United States. In that connection, it was important to establish a contact group which would act in a pragmatic way and further examine the various measures already proposed.

63. The Organization had reached an important juncture in terms of the consolidation of reform and its progress in the area of field representation was particularly welcome. The Organization now had a good programme and, as a result of the support and guidance it

had received, it was preparing a series of new guidelines and procedures for the field which should bring results. By mid-December 1997, a training programme was expected to be in place in the field, so that new ideas could be applied as soon as possible.

64. The working group chaired by the Tunisian delegation was to be commended for its efforts to establish guidelines for staff separation. Although little more time could be given for studying the financing options, the Board must have a clear idea by the start of the General Conference of the amount of resources that would be available for voluntary separations, so that the programme could begin as soon as possible.

65. **Mr. BENMOUSSA** (Morocco) fully agreed with other delegations that it would be a mistake to close the Geneva office, in view of its particular importance to the developing countries. It was a matter of some concern that, while the Secretary-General of the United Nations, in paragraph 88 of his report entitled "Reviewing the United Nations: a programme for reform" (A/51/950), had suggested that energy, technology and privatization might be added to the mandate of a restructured and revitalized UNIDO, the tendency in Vienna was to reduce activities to the minimum. He therefore wondered how the Board and the General Conference should respond to the more comprehensive position of the Secretary-General.

66. The main objections to the budget had come from countries of the European Union, despite their claims that reform of the United Nations system in the economic and social areas was not related to cost-cutting but to strengthening and revitalizing the Organization to effectively meet the challenges of the future. The countries of the European Union should therefore stand by their diplomatic position and draw the appropriate conclusions in respect of the UNIDO budget.

67. **Mr. HALIM MOHAMED** (Sudan) said that, although the reform package proposed by the Secretary-General was still under review by the General Assembly, the Board should try to reach an understanding so that, if it was decided that UNIDO should take on additional tasks, the relevant decisions could be reviewed, in an attempt to provide for the added mandates, on the understanding that more resources would be required.

68. **Mr. PALACIOS CEVALLOS** (Ecuador) said that his delegation supported the constructive position of the French delegation concerning the Geneva office and the suggestion that the new Director-General should be able to investigate the possibility of maintaining it within the budgetary limits established and in keeping with the overall aims of the Organization.

69. **Mr. CLERISME** (Observer for Haiti) said that his delegation fully supported the proposal by France concerning the Geneva office, in view of its importance to the Geneva-based delegations—particularly those of the LDCs—and its proximity to UNCTAD, WIPO, WTO and other organizations. It also agreed that the new Director-General should have an opportunity to review the decision to close the office, provided there were no budgetary repercussions.

70. **Mr. KHALIL** (Tunisia) said that, although it had a Business Plan and a programme and budgets, the Organization still faced the problem of a lack of resources in the longer term. It was therefore particularly important that all countries should pay their dues and work with the Director-General and his successor to achieve a lasting solution for the Organization. He urged the President to do his utmost to find a chairman for the working group entrusted with that question so that its work could be resumed.

71. **The PRESIDENT** replied that more time was needed for consultations with representatives of the various geographical groups in order to find a chairman. It should nevertheless be possible to make a recommendation during the current session.

72. **Mr. UMER** (Pakistan) said that no delegations, least of all those from the developing countries, were happy with the decision to close the Geneva office, in view of its very useful function for the Geneva-based delegations. He advocated giving the new Director-General some flexibility, bearing in mind, however, that a decision taken by an intergovernmental body could be reversed only by that same intergovernmental body. It would be particularly helpful to delegations if some document could be provided which clearly described the synergies achieved by UNIDO and the Geneva-based organizations and more clearly underscore the role of the Geneva office.

73. With regard to separation costs, the open-ended working group chaired by the representative of Tunisia might usefully examine the precedents set by other United Nations bodies in the attempt to find an acceptable formula.

74. **Mr. HALIM MOHAMED** (Sudan) acknowledged the wisdom of the French delegation's proposal regarding the Geneva office and of the point made by the Pakistan delegation concerning decisions taken by an intergovernmental body.

75. On the question of timely payments, he endorsed the appeal by the Director-General that Member States should endeavour to make their payments in January, in order to smooth the way for the new Director-General. It

was clear that all delegations considered that UNIDO should continue to operate and that it was important to world development and particularly to the developing countries. He therefore appealed to delegations which had been reluctant to accept budgetary cuts and staff separations to try to persuade their Governments to make generous voluntary contributions so that the Organization could continue its activities at the same level as normally under the regular budget.

76. **Mr. GITHINJI** (Kenya) said that his delegation was one of those which ran its Vienna operations from Geneva and wanted the Geneva office to survive. It nevertheless understood the financial implications of maintaining that office and hoped that the new Director-General would be given the necessary flexibility to maintain it within the approved budget.

77. **Mr. DE MARIA Y CAMPOS** (Director-General), replying to the points raised by the Moroccan delegation, said that the General Assembly had decided that an Interministerial Commission set up to deal with specialized agency matters would formulate a strategy for multilateral cooperation for the century ahead and report to the Millennium Assembly. Specific mention had been made in its decision of the new challenges and the possibilities open to UNIDO in energy, technology and private-sector development. In addition, following his own discussions with the Secretary-General, it had been decided to establish a task force within the mandate of the Business Plan to develop ideas about activities in those fields in the future.

78. With regard to the questions raised by the delegation of Pakistan, the Secretariat had reviewed all United Nations experience in the matter of separations following the United States withdrawal. There had been no comparable experience in Geneva, where most of the reductions had been small in scale and related to vacant posts.

79. **Ms. WOANYAH** (Ghana) said that her delegation, like other Geneva-based delegations, supported the continued operation of the Geneva office and suggested that the countries which benefited from it might consider contributing to its maintenance. She urged all countries which had not yet done so to follow Ghana's own example and pay their assessed contributions.

80. **The PRESIDENT**, summing up, said that the programme and budgets for 1998-1999 proposed for consideration by the IDB were the result of long and difficult discussions. Most delegations recognized that a spirit of compromise and cooperation had prevailed. The main directions and the proportions of the proposed budget were in conformity with the chief objectives of the UNIDO reform process and reflected the priority areas

contained in the Business Plan adopted in June 1997. Board members had, generally speaking, expressed their agreement with the programme and budgets as contained in the document approved by the PBC in its November 1997 meeting.

81. Regret had been expressed by a number of delegations over the budget reduction for the next biennium. Some delegations had expressed concern over certain specific measures to be implemented as a result of the reduced budget. Delegations had confirmed the importance of correct and honest implementation of the staff separations resulting from the budgetary cuts. In that context, the valuable work of the working group chaired by the representative of Tunisia had been commended. There had been agreement among Member States that staff separations should be made in full compliance with the respective rules and regulations. Various opinions had been expressed on the possible resources to be utilized for such separation.

82. In discussing the programme and budgets and the current financial situation, a repeated appeal had been made to States which had not already done so to pay their arrears as soon as possible. Thanks had been expressed to the Secretariat and the Chairman of the PBC for their work in preparing the programme and budgets for the next biennium.

83. The report of the Chairman of the open-ended working group and the respective resolutions would be finalized at the PBC meeting on the following day. The IDB would then take up those items during the decision-making process.

84. **Mr. BENMOUSSA** (Morocco) agreed with the President that staff separations should be conducted with full respect of the regulations, but stressed that the reference was to staff regulations. On the other hand, it

was possible to suspend the implementation of financial regulations.

85. The Business Plan had stated the means by which budgetary adjustments were to be achieved, among other things by the discontinuation of activities, but it added that the implementation of such adjustments might result in costs for staff separations in the programmes affected. Measures for financing separations should therefore be an integral part of the budget and should be annexed to it. The budget could not be considered as adopted when the PBC had not completed an essential part of its work, related to the financing of staff separations.

86. **The PRESIDENT** agreed that the Board could not approve the budget until the PBC had completed its work. His summing up had reflected his impression of the Board's discussion and of the feeling of Member States, which he believed was acceptable to the Board.

87. **Mr. HALIM MOHAMED** (Sudan) expressed his agreement with the President's summing up, and particularly with his clarification that the budget could not be adopted until the PBC had completed its work.

88. He would nevertheless prefer it to be made clear that the majority of delegations and regional groups had expressed regret and concern at the budget cuts. Furthermore, out of recognition for the diligent work of UNIDO staff, it would be more appropriate to say that the separations were an unhappy consequence of budget cuts.

89. **The PRESIDENT** said that his summing up would not be used as a reference for decision-making. Its sole purpose was to focus the attention of the Board on what had been discussed. It was therefore not his intention to redraft.

The meeting rose at 1.05 p.m.